Ethical Accounting Practices on Financial Performance: Special reference to SMEs in Galle District, Sri Lanka

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Introduction

Over the years, a great deal of research has focused on business ethics. It has been conceptualized and measured in several ways. Small and Medium Enterprises (SMEs) in Sri Lanka are described as one of the most dynamic and vibrant sectors of the economy at present and accounting for 80 per cent of all businesses. During the last 10 years, there has been noticeable growth in the number of organizations, the amount of investment and the range of services provided. SMEs are very diverse and contributing greatly to the economic development. Many businesses operate their accounting activities today, without a keen interest in bothering whether their actions are right or wrong and extent of employees understanding of the term accounting ethics while the level of compliance is highly infinitesimal. The way SMEs cares little about the source of wealth tends to make some of these business operators to begin to wonder about the necessity of accounting ethics for the performance of the organization. This study is intended to examine the impact of ethical accounting practices on the financial performance of SMEs in the Galle district.

Research questions

1. What is the relationship between ethical accounting practices and financial performance of SMEs?

2. What is the impact of ethical accounting practices on the financial performance of SMEs?

Objectives of the study

1. To establish whether ethical accounting practices have any relationship with the performance of SMEs.

2. To identify the impact of ethical accounting practices on the performance of SMEs

Literature review

According to the First code of Professional Conduct and Ethics of the Chartered Accountants of Sri Lanka, it clearly depicts the value of ethical conduct as "ethical conduct in the true sense is more than merely abiding by the letter of explicit prohibitions. Rather, it requires an unswerving commitment to honourable behaviour, even at the sacrifice of personal advantage" and this code is mandatory for all the members of the Chartered Accountants of Sri Lanka to observe in respect of the performance of professional service (Chartered Accountants of Sri Lanka, 2016).

Agboola, et al (2015) investigated a study on Organizational Ethics and Employee Level of Productivity in Nigerian Private Universities. They found that employee level of productivity is one of the many possible outcomes of ethical issues in an organization. An organization with strong ethical beliefs leads to a greater sense of commitment among its employees. Eginiwin and Dike (2014) examined a study with reference to some selected Oil Exploration and Producing Companies in Nigeria. Return on Investment (ROI), Earning per Share (EPS), and Dividend per Share (DPS) were used to proxy for firm financial reporting variables. The researcher identified some key accounting ethics variables which help in carrying out the research and these are; integrity, independence, objectivity, competence and accountability. Based on the findings, the results revealed that there is a positive relationship between the accounting ethics and the quality of financial reporting with respect to return on investment (ROI), earning per share (EPS), and dividend per share (DPS).

Methodology

This study is a quantitative study where the researcher used a self-developed questionnaire to collect data from the sample selected. There are 637 SMEs registered with the Chamber of Commerce, Galle district which are doing their operations in the area. Out of the population of 637, the researcher selected 50 SMEs. Objectivity (OBJ), integrity (INT), confidentiality (CON), professional competence and due care (PCD) and professional behaviour (PB)were used to measure the independent variables. Overall profits and losses were used to measure the dependent variable (i.e financial performance (FP)).

Hypotheses of the study

H_{10}:There is no significant relationship between objectivity and financial performance.

H_{11}:There is a significant relationship between objectivity and financial performance.

H_{20}: There is no significant relationship between integrity and financial performance.

H_{21}: There is a significant relationship between integrity and financial performance.

H_{30}: There is no significant relationship between confidentiality and financial performance.

H_{31}: There is a significant relationship between confidentiality and financial performance.

H_{40}: There is no significant relationship between professional competence and due care and financial performance.

H_{41}: There is a significant relationship between professional competence and   due care and financial performance.

H_{50}: There is no significant relationship between professional behaviour and financial performance.

H_{51}: There is a significant relationship between professional behaviour and financial performance.

Results and Discussions

Correlation Analysis

According to the Table 1, it can be observed that there is a significant positive relationship between dependent and independent variables of the study. The correlation value between objectivity and financial performance is 0. 502** which is significant at the level of 1%. Further the significant value between objectivity and financial performance of SMEs 0.000 which is less than 0.01. Pearson correlation between integrity and financial performance is 0.548**. The significant value is 0.000 and it is less than 0.01 and it presents a positive significant relationship between integrity and financial performance of SMEs. The correlation value between confidentiality and financial performance of SMEs is 0. 736** which is significant at the level of 1%. Further the significant value between objectivity and financial performance of SMEs 0.000 which is less than 0.01. The correlation value between professional competence and due care and financial performance of SMEs is 0.791**. The significant value is 0.000 and it is less than 0.01 so its significant at level 1%. It can be observed that the correlation value between confidentiality and financial performance of SMEs is 0. 472** which is significant at the level of 1%. Further the significant value between Professional behaviour and financial performance of SMEs 0.001 which is less than 0.01.

Table 1: Correlation Analysis

		OBJ	INT	CON	PCD	PB	FP
OBJ	r	1	.494**	.391**	.432**	.163	.502**
	Sig.		.000	.005	.002	.258	.000
INT	r	.494**	1	.319*	.323*	.079	.548**
	Sig.	.000		.024	.022	.587	.000
CON	r	.391**	.319*	1	.784**	.539**	.736**
	Sig.	.005	.024		.000	.000	.000
PCD	r	.432**	.323*	.784**	1	.559**	.791**
	Sig.	.002	.022	.000		.000	.000
PB	r	.163	.079	.539**	.559**	1	.472**
	Sig.	.258	.587	.000	.000		.001
FP	r	.502**	.548**	.736**	.791**	.472**	1
	Sig.	.000	.000	.000	.000	.001	

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Researcher constructed.

Regression Analysis

Table 2: Regression analysis for objectivity and financial performance

Model	Unstandardized Coefficients		Standardized Beta	t	Sig.
	B	Std. Error			
(Constant)	2.074	.553		3.753	.000
Objectivity	.537	.133	.502	4.026	.000

Source: Researcher constructed.

According to the Table 2, there is a statistical significance (p-value = 0.000) of objectivity on financial performance.

According to the Table 3, there is a statistical significance (p-value = 0.000) of Integrity on financial performance.

Table 3: Regression analysis for integrity and financial performance

Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.775	.556		3.192	.002
Integrity	.638	.141	.548	4.542	.000

Source: Researcher constructed.

Table 4: Regression analysis for confidentiality and financial performance

Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.005	.307		6.523	.000
Confidentiality	.549	.073	.736	7.527	.000

Source: Researcher constructed.

According to the Table 4, there is a statistical significance (p-value = 0.000) of Confidentiality on financial performance.

Table 5: Regression analysis for professional competence and due care and financial performance

Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Beta		
(Constant)	.937	.376		2.491	.016
Professional competence and Due care	.788	.088	.791	8.971	.000

Source: Researcher constructed.

According to the Table 5, there is a statistical significance (p value = 0.000) of Professional Competence and due care on financial performance.

According to the Table 6, there is a statistical significance (p-value = 0.000) of Professional behaviour and due care on financial performance.

Table 6: Regression analysis for professional behavior and financial performance

Model	Unstandardized Coefficients		Standardized Beta	t	Sig.
	B	Std. Error			
(Constant)	2.115	.588		3.598	.001
Professional Behavior	.590	.159	.472	3.711	.001

Source: Researcher constructed.

Table 7: Testing of Hypotheses

Hypotheses	Sig value	Status
H_{10}	0.000	Rejected
H_{11}		Accepted
H_{20}	0.000	Rejected
H_{21}		Accepted
H_{30}	0.000	Rejected
H_{31}		Accepted
H_{40}	0.000	Rejected
H_{41}		Accepted
H_{50}	0.001	Rejected
H_{51}		Accepted

Source: Researcher constructed.

Discussion and findings

The significant value between objectivity and financial performance of SMEs is 0.000 and it states that there is a significant relationship between objectivity and financial performance of the SMEs. The main reasons behind this are when all the personnel working in and out of the business are unbiased and having zero conflict of interest it is good for the financial performance of the SME. Further, the significant value between integrity and financial performance of SMEs is 0.000 and it states that there is a significant relationship between integrity and financial performance due to the honest practices and straightforwardness of the employees as well as employers of the SME. A significant value between confidentiality and financial performance also 0.000 and it present that there is a significant relationship between confidentiality and financial performance. To have a

significant relationship between confidentiality and financial performance business unit as well as its stakeholders need to maintain professional confidentiality and business relationship confidentiality. It can state that there is a significant relationship between professional competence and due care and financial performance by observing the significant value 0.000 and when authorized personnel maintain professional knowledge it has a positive impact on the financial performance of the SMEs. It can be proved that there is a significant relationship between professional behaviour and financial performance at the significant value 0.001. When accountants, finance managers and other authorized personnel comply with relevant laws and regulations and avoid actions that discredit the profession it is very good for the organization and then that organization can financially perform really well.

Conclusions and Recommendations

Conclusions

By analyzing the results of the Pearson correlation coefficient it can be stated that there is a significant relationship between independent variables and dependent variable and their numeric values were objectivity against financial performance 0.502, integrity against financial performance 0.548, confidentiality against financial performance was 0.736, professional competence and due care was 0.791 and the correlation between professional behaviour and financial performance is 0.472. Further the regression analysis revealed that there is a positive significant relationship between the ethical accounting practices and financial performances with reference to fifty SMEs in Galle district as well as ethical accounting practices such as objectivity, integrity, confidentiality, professional competence and due care and professional behaviour having a significant impact on the financial performance of the SMEs.

Recommendations

To adopt ethical accounting practices a SME, first needs to give a proper knowledge to the stakeholders about the impact of being ethical and how positively they can perform after adopting these practices because nowadays there is a lack of knowledge among people about this topic and sometimes business units tend to be unethical because of the lack of knowledge. Business entities including SMEs and other large scale companies can have a committee in their organization to maintain the ethical practices of their stakeholders and organization as a whole and rewarding the personnel who follow the ethical practices efficiently.SMEs can arrange a pleasant work environment for employees by using the accounting ethics as a base.

References

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